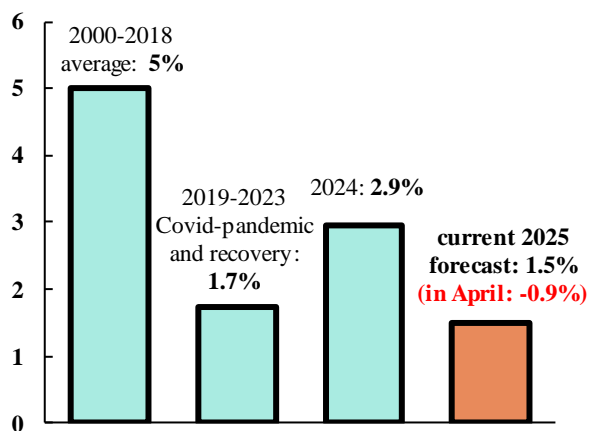


## Global trade remains resilient this year against significant turbulence

Early this year, global trade growth was expected to accelerate, against a backdrop of cautious optimism and a steady world economy. But the optimistic tone began to shift abruptly as the new US administration embarked on an aggressive agenda of policy change, with far-reaching implications for the global macroeconomic landscape.

On April 2, a day that came to be known as “Liberation Day,” President Trump announced sweeping tariffs, including a 10% baseline levy on all imports, and higher rates on selected countries. Trade projections then deteriorated sharply, on fears of the impact of massive supply-chain disruptions, rocketing uncertainty, and potentially escalating trade wars. At that time, the World Trade Organization (WTO) expected trade to contract this year. During the last 40 years, a contraction in real trade volumes had only been recorded in exceptional circumstances, such as in 2009 as an aftermath of the Global Financial Crisis (GFC), and in 2020 with the dramatic disruptions caused by the Covid-pandemic.

**Growth of Global Trade in Goods**  
 (% growth, year-over-year, volumes in real terms)



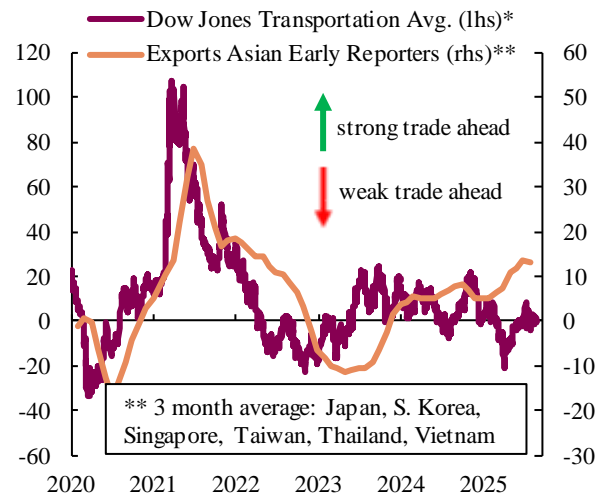
Source: World Trade Organization, IMF, QNB Economics

But the outlook has evolved since April, and the world economy has demonstrated significant resilience once again. In our view, although global trade growth in 2025 will be modest by historical standards, it will avoid the more pessimistic scenarios by a safe margin. In this article, we analyse

three key elements that support our constructive outlook on global trade.

First, key leading indicators point to a resilient global trade performance. The export activity of highly integrated Asian economies such as Japan, South Korea, Singapore, Taiwan, Thailand and Vietnam, provide informative trade statistics regarding the trade outlook in a timely fashion. After displaying average annual growth rates of 6% in USD terms during 2024, in line with the recovery in world trade that year, this gauge began to accelerate, doubling to an average of 12% in the last 4 months, showing little impact from trade tensions so far. Similarly, in spite of facing significant uncertainty, Chinese exports have grown at an average annual pace of 6% in recent months.

**Leading Indicators for Global Trade**  
 (% growth, year-over-year)



Source: Federal Reserve Bank St. Louis, Haver A., QNB Economics

Investor expectations regarding future earnings of companies in the transportation sector are also a revealing signal of prospects for global commerce. The Dow Jones Transportation Average (DJTA) is a US-based equity index that is comprised of airlines, trucking, marine transportation, railroad and delivery companies, whose performance tends to anticipate the dynamics of global exports. After reaching a low in mid-2024 in year-over-year growth terms, the gauge returned to the positive range that points to an expansion in trade. This shows that pessimism has subsided even at the epicentre of a major trade shock. While there is still a gap between booming Asian

exports and modestly positive earnings expectations for the DJTA, this could be explained by the front-loading of exports to the US amid back-and-forth tariff threats. In other words, although strong growth in Asian exports could be temporary, earnings expectations still suggest a moderate expansion, rather than a sharp trade downturn.

Second, rising US protectionism may not trigger widespread global trade wars as previously feared. The US administration has concluded a first set of negotiations, showing a shift towards a more pragmatic approach, which helped moderate uncertainty and discard the most extreme negative scenarios. Key industries benefited from broad exemptions, and deals were reached with the UK, Japan, Indonesia, Vietnam, the Philippines, and the EU, among others. This narrowed the range of potential tariff rates for the rest of the world. Furthermore, even as the US has become more protectionist, the rest of the world is gradually moving in the opposite direction. From the European Union to Asia and Latin America, most major economies continue to view trade as essential to their growth models, and are actively pursuing deeper integration via new or deeper trade agreements. Even as the world adjusts to a more protectionist US, the outlook on trade policy across the world is being

mitigated by non-US initiatives and the avoidance of trade wars.

Third, the policy interest rate cutting cycles by major central banks will provide additional support to international commerce. In the US, as the balance of macroeconomic risks puts more weight on softening economic growth, the Federal Reserve is expected to cut its policy interest rate by 100 basis points (b.p.) over the next year, bringing the benchmark policy rate to 3.25% by end-2026, bringing credit costs down from restrictive territory towards more accommodative levels. In the Euro Area, with inflation brought under control, the European Central Bank (ECB) has already cut its policy interest rate by 200 b.p. since mid-2024 to 2%. International trade is sensitive to interest rates, given its influence on investment by firms and on the demand of goods by households, which are major components of trade flows. As the US and the Euro Area account for around 40% of the world economy, the monetary easing cycle in advanced economies will add momentum to global trade growth.

All in all, although growth in global trade is set to decelerate significantly, the outlook for 2025 has improved relative to the most pessimistic post-Liberation Day scenarios. More resilient leading indicators, supportive monetary policy, and trade truces favor a less destructive trade environment.

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